

BAGLEY TOWNSHIP
DOWNTOWN DEVELOPMENT AUTHORITY
OTSEGO COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Bagley Township
Downtown Development Authority
Gaylord, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund information of the Bagley Township Downtown Development Authority, a component unit of Bagley Township, as of and for the year ended March 31, 2008, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund information of the Bagley Township Downtown Development Authority as of March 31, 2008, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Bagley Township Downtown Development Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the financial statements.

The budgetary schedules on page 11 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Keskine, Cook, Miller & Alexander LLP
KESKINE, COOK, MILLER & ALEXANDER LLP

October 19, 2008

**BAGLEY TOWNSHIP
DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
MARCH 31, 2008**

ASSETS	
Cash	\$ 274,546
Due from Other Governmental Units	19,721
	<hr/>
Total Assets	294,267
	<hr/> <hr/>
NET ASSETS	
Unrestricted	\$ 294,267
	<hr/> <hr/>

See accompanying notes to financial statements.

**BAGLEY TOWNSHIP
DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008**

		<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS & CONTRI- BUTIONS</u>	<u>CAPITAL GRANTS & CONTRI- BUTIONS</u>	
<u>EXPENSES</u>					<u>TOTAL</u>
\$ (3,696)	\$	-	\$ -	\$ -	(3,696)
GOVERNMENTAL ACTIVITIES					
Downtown Development					
GENERAL REVENUES					
Property Taxes - TIFA					20,119
Interest Earnings					10,431
CHANGE IN NET ASSETS					26,854
NET ASSETS - BEGINNING OF YEAR					267,413
NET ASSETS - END OF YEAR					\$ 294,267

See accompanying notes to financial statements.

**BAGLEY TOWNSHIP
DOWNTOWN DEVELOPMENT AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
MARCH 31, 2008**

**MAJOR
GOVERNMENTAL
FUND**

ASSETS

Cash	\$ 274,546
Due from Other Governmental Units	19,721
	<hr/>
Total Assets	294,267
	<hr/> <hr/>

FUND EQUITY

Fund Balance	\$ 294,267
	<hr/> <hr/>

See accompanying notes to financial statements.

**BAGLEY TOWNSHIP
DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED MARCH 31, 2008**

	MAJOR GOVERNMENTAL <u>FUND</u>
REVENUES	
Property Taxes	\$ 20,119
Interest Earnings	10,431
	<hr/>
Total Revenues	30,550
	<hr/>
EXPENDITURES	3,696
	<hr/>
Excess of Revenues over Expenditures	26,854
Fund Balance - Beginning of Year	267,413
	<hr/>
Fund Balance - End of Year	\$ 294,267
	<hr/> <hr/>

See accompanying notes to financial statements.

**BAGLEY TOWNSHIP
DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2008**

NOTE A: ENTITY

The Bagley Township Downtown Development Authority was organized in August 1997, by the Township of Bagley, under Public Act 197 of the State of Michigan. Its purpose includes but is not limited to: the prevention of deterioration in the downtown district, the encouragement of historic preservation, the creation and implementation of development plans, to increase property values in the downtown district, and to promote economic growth therein.

PRIMARY GOVERNMENT

The Bagley Township Downtown Development Authority is treated as a discretely presented component unit of Bagley Township. Bagley Township acts as the primary government for the Authority; accordingly, the Authority's activity is presented in the primary government's financial statements, which are located at 2946 South Otsego Avenue, Gaylord, MI 49735.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the Authority are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide including required disclosures, of the Authority's financial activities.

The accounting policies of the Authority conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On April 1, 2002, the Authority adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Authority's financial statements has shifted from a fund focus to a government-wide focus.

**BAGLEY TOWNSHIP
DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2008**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Authority as a whole.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. The Authority has one fund and one functional activity – preservation/positive development of Bagley Township's downtown area. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Authority's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for the Authority's governmental fund.

The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

FUND TYPE AND MAJOR FUND

Governmental Fund

The Authority reports the following major governmental fund:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating activities of the Authority.

**BAGLEY TOWNSHIP
DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2008**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Authority's entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Authority considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: property taxes and investment income. In general, other revenues are recognized when cash is received.

BUDGET

Budgets of the Authority are prepared by the board and presented to the Bagley Township Board for approval before February 1st of each year. Amendments are also approved by the Bagley Township Board as needed.

**BAGLEY TOWNSHIP
DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2008**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGET (CONTINUED)

The budget is adopted on a fund basis using the modified accrual basis of accounting and ends on March 31st of each year. There are no carryover budget items.

PROPERTY TAXES

Taxes represent a tax-increment financed capture and are recognized as revenue in that fiscal year. Taxes are assessed on a lien date of December 1st.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RESTRICTED RESOURCES

When an expense is incurred for purposes for which both restricted and unrestricted net assets available, the Authority first uses restricted net assets to fund the expense and once depleted, uses unrestricted net assets to fund the remaining expense.

CAPITAL ASSETS AND DEPRECIATION

The Authority owns no capital assets; consequently, no policies governing capital assets have been adopted.

**BAGLEY TOWNSHIP
DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2008**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND
DISCOUNTS/PREMIUMS**

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

The Authority has incurred no long-term debt as of March 31, 2008.

NOTE C: CUSTODY OF ASSETS

All assets are under the control of the Authority. Upon dissolution of the Authority, all remaining assets revert to Bagley Township.

NOTE D: CASH DEPOSITS

On March 31, 2008, the Authority had bank deposits in the amount of \$276,546, with a book balance of \$274,546. \$100,000 is insured by the Federal Deposit Insurance Corporation (FDIC).

NOTE E: DUE FROM OTHER GOVERNMENTAL UNITS

The \$19,721 due from other governmental units at March 31, 2008 relates to unremitted property tax revenues.

NOTE F: INSURANCE

Liability insurance is maintained by Bagley Township.

**BAGLEY TOWNSHIP
DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2008**

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
REVENUES				
Local Sources:				
Property Taxes	50,000	50,000	20,119	(29,881)
Interest	3,000	3,000	10,431	7,431
Total Revenues	53,000	53,000	30,550	(22,450)
EXPENDITURES				
Professional Services	53,000	53,000	3,696	49,304
Total Expenditures	53,000	53,000	3,696	49,304
Excess (Deficiency) of Revenues over Expenditures	-	-	26,854	26,854
Fund Balance - Beginning of Year	268,361	268,361	267,413	948
Fund Balance - End of Year	<u>\$ 268,361</u>	<u>\$ 268,361</u>	<u>\$ 294,267</u>	<u>\$ 25,906</u>



Keskin, Cook, Miller & Alexander, LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Jeffrey B. Cook, CPA
Richard W. Miller, CPA
Curt A. Reppuhn, CPA
Terry J. Distel, CPA (Ret.)
Joseph G. Okrei, CPA (Ret.)
Walter J. Keskin, CPA (Ret.)
Ronald D. Alexander, CPA (Ret.)

October 19, 2008

To the Downtown Development Authority Board
Bagley Township Downtown Development Authority
Otsego County, MI

We have audited the financial statements of the governmental activities of the Bagley Township Downtown Development Authority (the DDA) for the year ended March 31, 2008, and have issued our report thereon dated October 19, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 16, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on June 11, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the DDA are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the collectability of accounts receivable. We evaluated the key factors and assumptions used to develop the collectability in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the DDA's Measurement Focus and Basis of Accounting policy in Note 2 to the financial statements. We evaluated standard governmental accounting policies and procedures in determining the adequacy of the disclosure from a neutral, consistent and clear perspective for the end user.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 19, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the DDA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Segregation of Duties

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the DDA's staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected during normal activities.

Preparation of Financial Statements

The definition of a significant deficiency includes any condition that adversely affects the ability to report financial data in accordance with generally accepted accounting principles (GAAP). As a matter of convenience, the DDA has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the DDA has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions.

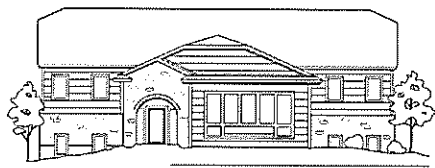
The DDA has committed the resources necessary to meet its internal reporting needs. In this regard, it is not unlike many other Governmental Units of its size.

This communication is intended solely for the information and use of management, the Bagley Township Downtown Development Authority's Board of Directors and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Keskine, Cook, Miller & Alexander LLP

Keskine, Cook, Miller & Alexander LLP



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October 19, 2008

To the Downtown Development Authority Board
Bagley Township
Otsego County, MI

In planning and performing our audit of the financial statements of the governmental activities of the Bagley Township Downtown Development Authority (the DDA) as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the DDA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the DDA's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Segregation of Duties

A properly designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the DDA's staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected during normal activities.

Preparation of Financial Statements

The above definition of a significant deficiency includes any condition that adversely affects the ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the DDA has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the DDA has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions.

The DDA has committed the resources necessary to meet its internal reporting needs. In this regard, it is not unlike many other governmental units of its size.

This communication is intended solely for the information and use of management, the Bagley Downtown Development Authority's Board and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Keskine, Cook, Miller & Alexander LLP

Keskine, Cook, Miller & Alexander LLP